

Section 1

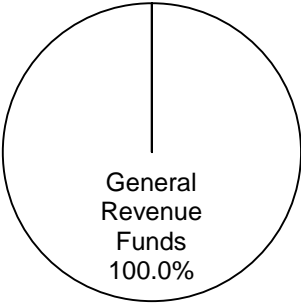
Higher Education Fund
Summary of Recommendations - Senate

Page: III-63

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Method of Financing	2014-15 Base	2016-17 Recommended	Biennial Change	% Change
General Revenue Funds	\$525,000,000	\$525,000,000	\$0	0.0%
GR Dedicated Funds	\$0	\$0	\$0	0.0%
Total GR-Related Funds	\$525,000,000	\$525,000,000	\$0	0.0%
Federal Funds	\$0	\$0	\$0	0.0%
Other	\$0	\$0	\$0	0.0%
All Funds	\$525,000,000	\$525,000,000	\$0	0.0%

RECOMMENDED FUNDING
BY METHOD OF FINANCING

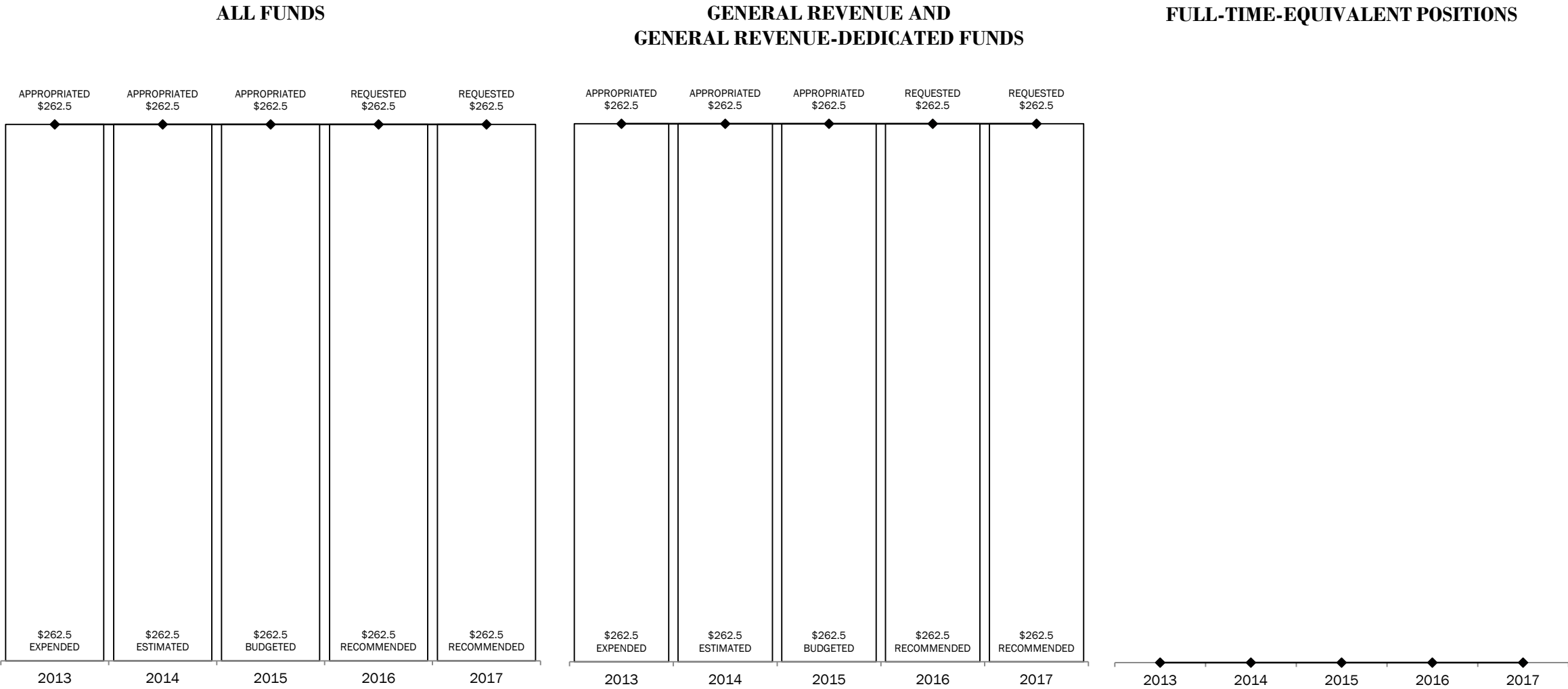


	FY 2015 Budgeted	FY 2017 Recommended	Biennial Change	% Change
FTEs			0.0	0.0%

The bill pattern for this agency (2016-17 Recommended) represents an estimated 100% of the agency's estimated total available funds for the 2016-17 biennium.

Section 1
Higher Education Fund
2016-2017 BIENNIUM
IN MILLIONS

TOTAL= \$525.0 MILLION



Section 2

Higher Education Fund
Summary of Recommendations - Senate, By Method of Finance -- ALL FUNDS

Strategy/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
HIGHER EDUCATION FUND A.1.1	\$525,000,000	\$525,000,000	\$0	0.0%	While the Higher Education Fund (HEF) appropriation is entirely funded with
Total, Goal A, HIGHER EDUCATION FUND	\$525,000,000	\$525,000,000	\$0	0.0%	General Revenue, Article VII, Section 17 of the Texas Constitution provides authority only to increase or reallocate the annual appropriations every five years.
Grand Total, All Strategies	\$525,000,000	\$525,000,000	\$0	0.0%	The HEF appropriation is not eligible for reduction. However, the Eighty-fourth Legislature has the opportunity to both increase and reallocate the HEF appropriation for the 2016-2025 decennium.

Section 3a

Higher Education Fund
Selected Fiscal and Policy Issues - Senate

1. **HEF Allocation.** Article VII, Section 17, Texas Constitution, requires the Legislature to determine the HEF allocation every ten years and to review the allocation at the end of the fifth year of the ten-year allocation. Because the HEF allocations began in 1985, the Eighty-fourth Legislature has the opportunity to both reallocate and increase the HEF allocation.

Pursuant to Education Code 62.022, the Texas Higher Education Coordinating Board (THECB) conducted a decennial review of the current HEF allocation formula with representatives from all HEF-eligible institutions. The committee put forward the following recommendations:

- a) Increase annual HEF appropriations from \$262.5 million to \$393.8 million for fiscal year 2016 through 2025;
- b) Maintain the set aside portion for the Texas State Technical College (TSTC) System at 2.2 percent of the annual allocation;
- c) Allocate the remaining 97.8 percent to the remaining HEF eligible institutions based on the following metrics:
 - o Institutional Complexity—allocate 50 percent of the remaining funding based on each institution’s All Funds formula funding for the 2016-17 biennium as introduced in House Bill 1, Eighty-fourth Legislature.
 - o Space Deficit—allocate 25 percent of the remaining funding based on the space need reported at each institution as of Fall 2014. Institutions with a space surplus would receive no funding from this funding element.
 - o Facilities Condition—allocate 25 percent of the remaining funding based on the institutions’ campus condition index values as of Fall 2014.

The proposed allocation formula differs from the current allocation methodology by using updated data elements and setting the percentage split between the space deficit and facilities condition elements at 25 percent each rather than allocating funding between elements based on the combined monetized value of the two elements. Using the combined monetized value methodology, the amount of total funding for the space deficit and facilities condition element was determined by calculating the pro-rata share of each element based on the total monetary value of both elements. For the fiscal year 2011–2015 distribution, this calculation resulted in the following percentage allocations of the HEF distribution remaining after the TSTC set aside: 23 percent for space deficit; 27 percent for facilities condition. At this time, THECB is still finalizing the proposed HEF allocations for each institution for the 2016-2025 decennium.

2. **HEF Appropriations.** Annual HEF appropriations are set in statute. Therefore, legislation must pass in order for any changes in the total allocation amount or distribution amounts amongst the eligible institutions to occur. If no legislation passes during the Eighty-fourth Legislature, the current allocation amount and distribution methodology will continue.

Section 3a

3. **Additional Information.** Attachments to this section provide supplementary detail on the statutory allocations of HEF over time and a comparison of existing constitutional and research funds for institutions of higher education.

Statutory Allocations of the Higher Education Fund, FY 2000-15

Institution/System	FY 2000-05 Annual Allocation	FY 2006-07 Annual Allocation ¹	FY 2008 Annual Allocation	FY 2009-10 Corrective Allocation Per HB 51 ²	FY 2011-15 Annual Allocation Per HB 51
Lamar University	5,737,451	7,473,672	11,210,508	8,028,333	8,330,933
Lamar - Orange	743,967	743,365	1,115,048	1,140,745	1,235,752
Lamar - Port Arthur	2,336,605	793,412	1,190,119	1,217,124	1,244,694
Lamar Institute of Technology				1,825,332	2,332,463
Sul Ross University	1,635,271	1,362,515	2,043,772	2,090,896	1,625,061
Sul Ross University - Rio Grande	266,322	253,220	379,831	388,203	445,380
Sam Houston St. University	5,864,608	6,610,870	9,916,306	10,184,001	11,893,110
Texas State University	14,479,112	13,199,517	19,799,276	20,258,248	21,863,258
Subtotal:	31,063,336	30,436,571	45,654,860	45,132,882	48,970,651
Texas A&M University - Corpus Christi	3,687,722	5,519,329	8,278,993	8,471,116	7,139,067
Texas A&M International University	1,778,155	2,086,807	3,130,211	3,202,241	3,796,436
Texas A&M University - Kingsville	3,555,651	3,368,155	5,052,232	5,167,540	5,046,885
Texas A&M University - Commerce	4,229,747	3,563,785	5,345,678	5,684,047	5,193,232
Texas A&M University - Texarkana	1,027,070	1,097,568	1,646,352	1,684,587	1,307,907
West Texas A & M University	3,671,345	3,184,593	4,776,890	4,886,159	4,652,995
Subtotal:	17,949,690	18,820,237	28,230,356	29,095,690	27,136,522
University of Houston	25,986,116	23,517,427	35,276,140	36,091,538	35,885,768
University of Houston - Clear Lake	3,853,447	4,000,892	6,001,337	5,355,874	5,214,167
University of Houston - Downtown	5,453,977	6,418,767	9,628,151	9,548,995	7,435,238
University of Houston - Victoria	1,659,449	1,521,922	2,282,883	2,335,692	2,393,921
Subtotal:	36,952,989	35,459,008	53,188,511	53,332,099	50,929,094
The University of Texas - Pan American	6,081,112	8,588,232	12,882,348	13,176,800	12,311,123
The University of Texas at Brownsville	1,050,580	2,791,194	4,186,790	4,284,677	5,057,420
Subtotal:	7,131,692	11,379,426	17,069,138	17,461,477	17,368,543
TSTC - Harlingen	-	-	-	-	-
TSTC - West Texas	-	-	-	-	-
TSTC - Waco	-	-	-	-	-
TSTC - Marshall	-	-	-	-	-
Subtotal:	3,850,000	3,850,000	5,775,000	5,775,000	5,775,000
Midwestern State University	3,007,669	2,289,565	3,434,348	3,810,377	3,559,433
Stephen F. Austin State University	6,633,109	4,683,847	7,025,771	6,907,643	8,425,937
Texas Southern University	7,191,493	7,437,642	11,156,463	11,283,387	8,894,700
Texas Woman's University	6,974,897	5,616,139	8,424,209	8,615,167	10,169,695
Subtotal:	23,807,168	20,027,193	30,040,791	30,616,574	31,049,765
Texas Tech University	20,961,881	17,886,318	26,829,477	27,446,656	23,936,088
Texas Tech University HSC	7,735,000	11,899,627	17,849,441	14,854,762	16,973,569
Angelo State University	3,887,211	2,390,535	3,585,802	3,667,497	3,743,027
Subtotal:	32,584,092	32,176,480	48,264,720	45,968,915	44,652,684
University of North Texas	18,021,033	17,424,832	26,137,233	27,122,687	27,846,476
University of North Texas HSC	3,640,000	5,426,261	8,139,391	7,994,676	8,771,265
Subtotal:	21,661,033	22,851,083	34,276,624	35,117,363	36,617,741
GRAND TOTAL:	175,000,000	175,000,000	262,500,000	262,500,000	262,500,000
General Academic Institutions:	156,694,428	152,287,335	228,431,001	229,692,361	226,167,257
Health Related Institutions:	11,375,000	17,325,888	25,988,832	22,849,438	25,744,834
Texas State Technical Colleges:	3,850,000	3,850,000	5,775,000	5,775,000	5,775,000
2-Year Lamar State Colleges:	3,080,572	1,536,777	2,305,167	4,183,201	4,812,909

Section 3c

Comparison of Constitutional and Research Funds

Fund	2016-17 Recommendations (Estimated)	Function/Purpose	Eligibility	Legal Basis	Allocation Methodology
Available University Fund	\$1,690.5 million (Estimated)	<p>Texas Constitution: "...for the purpose of acquiring land ...constructing and equipping buildings or other permanent improvements, major repair and rehabilitation of buildings and other permanent improvements, acquiring capital equipment and library books and library materials, and refunding bonds or notes issued under this Section..."</p> <p>Also:"....for the purpose of the support and maintenance of The Texas A&M University System administration, Texas A&M University, and Prairie View A&M University" and "The University of Texas at Austin and The University of Texas System".</p>	<p>Texas Constitution:</p> <p>For "support and maintenance": UT Austin, Texas A&M University, Prairie View University, UT System, A&M System</p> <p>For debt service: All component institutions that are not eligible to receive HEF support, including the TAMU System Agencies except Texas Veterinary Medical Diagnostic Laboratory (which per Education Code Section 88.701 "is a state agency under the jurisdiction and supervision of the board").</p>	<p>Article VII, Section 18(a-j) of the Texas Constitution</p> <p>General Appropriations Act</p>	<p>Texas Constitution requires 1/3 of the annual AUF proceeds be transferred to the Texas A&M University System and 2/3 of the annual AUF proceeds be transferred to The University of Texas System. Each System office determines how to apportion its share of the AUF between debt service and "support and maintenance", within guidelines specified by the Texas Constitution.</p>
Higher Education Fund	\$525.0 million	<p>To support institutions ineligible for AUF support.</p> <p>Article VII, Section 17(a): "...for the purpose of acquiring land...constructing and equipping buildings ...major repairacquisition of capital equipment...other permanent improvements, or capital equipment used jointly for educational and general activities...."</p>	<p>Article VII, Section 17(c) provides an allowance to add a new institution by a 2/3 vote of both houses of the Legislature if the new institution is outside the UT and A&M Systems.</p>	<p>Article VII, Section 17(a-l) of the Texas Constitution</p> <p>Education Code, Section 62.002</p> <p>General Appropriations Act</p>	<p>Article VII, Section 17(a) requires the HEF be allocated using an "equitable formula", defined in the Education Code (Section 62.021) as: "The allocation of funds under this subsection is made in accordance with an equitable formula consisting of the following elements: space deficit, facilities condition, institutional complexity, and a separate allocation for the Texas State Technical College System."</p> <p>THECB administers the HEF formula reallocation advisory process.</p> <p>Education Code (Section 62.021) provides a by-institution breakout of annual HEF appropriations.</p>

Section 3c

Comparison of Constitutional and Research Funds

Fund	2016-17 Recommendations (Estimated)	Function/Purpose	Eligibility	Legal Basis	Allocation Methodology
Available National Research University Fund	\$61.1 million (Estimated)	<p>Article VII, Section 20 (a): "...for the purpose of providing a dedicated, independent, and equitable source of funding to enable emerging research universities in this state to achieve national prominence as major research universities."</p> <p>Article VII, Section 20 (h): "...only for the support and maintenance of educational and general activities that promote increased research capacity at the university."</p>	<p>Designated an emerging research university by Texas Higher Education Coordinating Board.</p> <p>Reports at least \$45 million in restricted research expenditures in each of the last 2 years. Plus four of the following additional criteria:</p> <p>1) Endowments > \$400 million; 2) Produces > 200 PhDs per year; 3) Selective entering Freshmen class; 4) Member of Phi Beta Kappa or equivalent; 5) Possesses high quality faculty; and 6) Demonstrated commitment to high-quality graduate education.</p>	<p>Article VII, Section 20 (a-h) of the Texas Constitution</p> <p>Education Code, Section 62.141</p> <p>General Appropriation Act</p>	<p>Education Code, Section 62.148 (c): ".....of the total amount appropriated from the fund for distribution in a state fiscal year, each eligible institution is entitled to a distribution in an amount equal to the sum of:</p> <p>(1) one-seventh of the total amount appropriated; and</p> <p>(2) an equal share of any amount remaining after distributions are calculated under Subdivision (1), not to exceed an amount equal to one-fourth of that remaining amount."</p> <p>Education Code, Section 62.148 (e):"If the number of institutions that are eligible for distributions in a state fiscal year is more than four, each eligible institution is entitled to an equal share of the total amount appropriated from the fund for distribution in that fiscal year."</p>
Research Development Fund	\$73.6 million	Education Code Section 62.091: "...to promote increased research capacity at eligible general academic teaching institutions."	Education Code Section 62.092: "'Eligible institution' means a general academic teaching institution, as defined by Section 61.003, other than The University of Texas at Austin or Texas A&M University."	Education Code, Section 62.091 Note, the RDF as a stand-alone appropriation item has not been funded since the 2006–07 biennium. However, funds called the RDF have been appropriated directly into the bill patterns of each eligible General Academic Institution.	Education Code Section 62.095: "The amount shall be apportioned among the eligible institutions based on the average amount of restricted research funds expended by each institution per year for the three preceding state fiscal years."

Section 3c

Comparison of Constitutional and Research Funds

Fund	2016-17 Recommendations (Estimated)	Function/Purpose	Eligibility	Legal Basis	Allocation Methodology
Texas Competitive Knowledge Fund	\$159.2 million	Texas Education Code Section 62.052: "...to provide funding to eligible research universities and emerging research universities to support faculty to ensure excellence in instruction and research."	Education Code Section 62.051: "Eligible institution" means an institution of higher education designated as a research university under the coordinating board's accountability system and, for any three consecutive state fiscal years made total annual research expenditures in an average annual amount of not less than \$450 million or an institution designated as an emerging research university under the coordinating board's accountability system and, for any three consecutive state fiscal years made total annual research expenditures in an average annual amount of not less than \$50 million.	Education Code, Section 62.051	The 2014–15 appropriation provided approximately \$0.93 million to each eligible institution for every \$10.0 million in unrestricted research expenditures as averaged over a 3-year period
Texas Research Incentive Program	\$26.7 million	Education Code, Section 62.122: "....to provide matching funds to assist eligible institutions in leveraging private gifts for the enhancement of research productivity and faculty recruitment."	Education Code, Section 62.121: "...Eligible institution" means an institution of higher education designated as an emerging research university under the coordinating board's accountability system."	Education Code, Section 62.121 (House Bill 51, Eighty-first Regular Session)	<p>Education Code, Section 62.123: "...is entitled to receive, out of funds appropriated for the purposes of the program for that fiscal year, a matching grant in an amount determined according to the following rates:</p> <p>(1) 50 percent of the amount of the gifts and endowments, if the total amount of gifts and endowments is \$100,000 or more but not more than \$999,999;</p> <p>(2) 75 percent of the amount of the gifts and endowments, if the total amount of gifts and endowments is \$1 million or more but not more than \$1,999,999; or</p> <p>(3) 100 percent of the amount of the gifts and endowments, if the total amount of gifts and endowments is \$2 million or more.</p>

Section 3c
Comparison of Constitutional and Research Funds

Fund	2016-17 Recommendations (Estimated)	Function/Purpose	Eligibility	Legal Basis	Allocation Methodology
Norman Hackerman Advanced Research Program	\$1.0 million	Education Code, Section 142.002: "...to provide support for basic research conducted by faculty members and students...in eligible institutions."	Education Code, Section 142.001: "'Eligible institution' means an institution of higher education or a private or independent institution of higher education."	Education Code, Section 142.001	Education Code, Section 142.003: "The coordinating board shall appoint an advisory committee that consists of experts in the specified research areas to advises the coordinating board regarding the board's development of research priorities, guidelines, and procedures for the selection of specific projects at eligible institutions."

Section 4

**Higher Education Fund
Performance Review and Policy Report Highlights**

Reports & Recommendations	Savings/ (Cost)	Gain/ (Loss)	Fund Type	Included in Introduced Bill	Action Required During Session
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NO RELATED RECOMMENDATIONS

Section 5

**Higher Education Fund
Rider Highlights - Senate**

NONE